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SUBJECT: KAZAKHSTAN: TIMUR KULIBAYEV DISCUSSES OIL
TRANSPORTATION AND GEORGIA INVESTMENTS

REF: ASTANA 2008

Classified By: Ambassador Richard Hoagland, Reasons 1.4 (b) and (d)

11. (C) SUMMARY: Timur Kulibayev, Chairman of the oil and gas industry association KazEnergy and billionaire son-in-law of President Nazarbayev, met with the Ambassador and visiting Eurasian Energy Diplomacy Coordinator Ambassador Steve Mann on October 7 to discuss oil transportation issues, the global financial crisis, and Kazakhstan's investments in Georgia. Kulibayev reiterated Kazakhstan's commitment to a multi-vector transportation policy. He maintained that Kazakhstan is considering all routes, including Iran. Kulibayev asked for U.S. Government assistance in getting Azerbaijan to permit Kazakhstan to ship crude through the Baku-Supsa pipeline. He stressed that Kazakhstan remains committed to its strategic energy investments in Georgia. Kulibayev contended that Kazakhstan's oil and gas sector is not being affected by the global financial crisis. END SUMMARY.

KAZAKHSTAN'S MULTI-VECTOR APPROACH INCLUDES SOUTHERN ROUTE

12. (C) During an October 7 meeting with the Ambassador and visiting Eurasian Energy Diplomacy Coordinator Ambassador Steve Mann, Timur Kulibayev reiterated Kazakhstan's commitment to a multi-vector hydrocarbon transportation policy and stressed the importance of oil transportation via the Caspian Pipeline Consortium (CPC) pipeline, the Baku-Tbilisi-Ceyhan (BTC) pipeline, and the Kazakhstan Caspian Transportation System (KCTS) as alternatives to shipping through Russia. He said that Russia is actively developing a detailed proposal to transport all Kazakhstani oil via Novorossiysk and Primorsk, which he said would not serve Kazakhstan's interests. "We need to have another card to play with Russia," Kulibayev said. "We need to have additional arguments." Kulibayev met with us in a private hotel suite and spoke in a calm, quiet, measured voice

throughout, smiling occasionally and switching to English at will. He confirmed that CPC expansion negotiations are ongoing and said that Kazakhstan must increase its transportation capacity, particularly now that Tengizchevroil (TCO) has increased its output to 540,000 barrels per day. Kulibayev added that Kashagan production in 2013 will exacerbate transportation constraints and was critical of Eni, the lead operator of Kashagan, saying, "They haven't even considered the transportation question."

13. (C) Kazakhstan is looking at all transportation routes, including what Kulibayev referred to as the "southern route" via Iran. He said that nothing is likely to happen soon, but informed us that Kazakhstan has developed a long-term business plan for significant crude shipments to the port of Neka in northern Iran. According to Kulibayev, the oil would either be refined at one of three refineries in northern Iran, or it would be shipped via a future pipeline through Iran. However, Kulibayev noted that if Kazakhstan successfully increases the transportation capacity of CPC, KCTS, and the Atasu-Alashkanou pipeline to China to 120-130 million tons of crude per year, then "we would not need to ship to Iran."

FRUSTRATION WITH BAKU-SUPSA

14. (C) Discussing KCTS in more detail, Kulibayev confided that Chevron CEO David O'Reilly told President Nazarbayev that Chevron would be willing to build a pipeline from Eskene to Kuryk, where crude would be loaded onto tankers and

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shipped across the Caspian Sea to Baku. Kulibayev said with noticeable frustration that ExxonMobil subsequently expressed interest in the pipeline project, which has significantly slowed down progress. "Can't you get them (i.e., Chevron and ExxonMobil) together and work something out?," asked Kulibayev.

15. (C) Echoing earlier remarks from KazMunaiGas (KMG) President Kaigeldy Kabyldin (see reftel), Kulibayev said that the Governments of Kazakhstan and Azerbaijan have a memorandum of understanding (MOU) to ship Kazakhstani crude to Baku and onward to European markets. Kulibayev said that Kazakhstan is meeting its commitment to develop the port of Aktau per the terms of the MOU, but complained that the existing Baku-Supsa pipeline that could transport the crude has not been used for the past two years. Kulibayev confirmed that KMG is ready to buy Baku-Supsa outright or purchase shares in the pipeline. "We need your help with the Azeris," Kulibayev said, "or we will look at other trans-Caucasus pipeline projects." Kulibayev also said that President Nazarbayev is planning to visit Azerbaijan after the presidential elections there on October 15.

FINANCIAL CRISIS "NOT AFFECTING OIL AND GAS SECTOR"

16. (C) According to Kulibayev, the global financial crisis has not had a significant impact on Kazakhstan's oil and gas production, although Kazakhstani commercial banks, construction companies, and smaller enterprises have been adversely affected. Kulibayev said that the country's major economic indicators are stable and claimed that Kazakhstan's National (Oil) Fund has sufficient reserves to support the Government's budget for "two to three years," if necessary.

KAZAKHSTAN'S INVESTMENTS IN GEORGIA

17. (C) When asked about Kazakhstan's investment plans in Georgia, Kulibayev said that Kazakhstan will remain a long-term, strategic investor and confided that Georgian President Saakashvili recently reassured Kazakhstani investors that Georgia welcomes investment from Kazakhstan and is committed to building strong, lasting ties to Kazakhstan. "Of course," observed Kulibayev, "the conflict in August did not help make Georgia a more attractive place

for foreign investment." But he denied reports that Kazakhstan was divesting its Georgian assets. On the contrary, he reaffirmed Kazakhstan's commitment to develop the Batumi oil terminal and said Kazakhstan "will continue to make long-term infrastructure investments in Georgia."

18. (C) When asked about reports that KMG plans to sell its gas distribution subsidiary in Georgia, KazTransGas-Tbilisi (formerly known as Tbilgas), Kulibayev surprised us by saying that President Saakashvili sent KMG a letter "a few months ago" asking if KMG would consider selling the company. Kulibayev said that KMG is willing to consider offers for it and speculated that the Government of Georgia would prefer to see KazTransGas-Tbilisi in Georgian hands. He said that from the very beginning, KMG's acquisition of the company was driven by politics, not economics, and noted that KMG has made expensive and important infrastructure investments -- including the installation of gas meters -- in building the company into a stable, successful enterprise. He said that KMG has been frustrated for some time by its inability to set tariffs at market rates and by Georgian government efforts to force KazTransGas-Tbilisi to deliver gas to rural residents with little ability to pay, while another Georgian company was a

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ssigned large industrial clients.

19. (U) Ambassador Mann has cleared this cable.
HOAGLAND